



Claire McCaskill

Missouri State Auditor

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February 2006

# ECONOMIC DEVELOPMENT

## Division of Professional Registration

## State Board of Cosmetology



Office Of The  
State Auditor Of Missouri  
Claire McCaskill

February 2006

**The following findings were included in our audit report on the Department of Economic Development, Division of Professional Registration, State Board of Cosmetology.**

The State Board of Cosmetology did not ensure cosmetology salons were inspected annually as required by board policy. The Central Investigative Unit (CIU) of the Division of Professional Registration (DPR) performs inspections and investigations of salons, and also performs services for other boards and commissions within the division. The DPR and the board use a licensure and inspection tracking management system to record and monitor license and inspection activity. Each salon cited for unlicensed activity or serious or repeat sanitation violations during an inspection is to be subjected to a follow-up inspection to determine if corrective action has been taken. The board estimates 12,455 inspections were performed and/or attempted for the year ended June 30, 2005.

The board annually identifies salons that did not have the required annual inspection, referred to as overdue inspections. The DPR reported the number of overdue inspections as of June 30, 2005, was 2,896 of the licensed salons. In addition, of those 2,896 overdue inspections, at least 214 salons also had not received an inspection in 2004. A similar condition was noted in our prior report.

The board reported that 1,611 of the 12,455 inspections performed in fiscal year 2005 resulted in a violation, with 194 of the inspections identifying unlicensed activity or a serious licensure or sanitation violation. The board indicated that only 4 licenses were revoked and 23 licenses were suspended as a result of violations. The audit suggested the board consider using their limited inspection resources to concentrate on salons with recent violations or a history of violations.

All licenses issued by the board must be renewed biennially by September 30 of every odd numbered year. As of September 30, 2003, 18.3 percent of individuals failed to renew their licenses. Except during salon and school inspections, the board does not perform any follow-up action to determine if the individuals who did not renew are practicing without a license. Without follow-up actions regarding non-renewed individual licenses, the board cannot ensure all individuals are practicing with a license as required by law. A similar condition was also noted in our prior report.

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YELLOW SHEET

DEPARTMENT OF ECONOMIC DEVELOPMENT  
DIVISION OF PROFESSIONAL REGISTRATION  
STATE BOARD OF COSMETOLOGY

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT .....	1-3
MANAGEMENT ADVISORY REPORT - STATE AUDITOR'S FINDINGS .....	4-9

<u>Number</u>	<u>Description</u>	
1.	Inspections .....	5
2.	Expenditures .....	7
3.	License Procedures .....	8
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION .....		10-15

Appendix

A	Comparative Statement of Revenues, Expenditures, and Changes in Fund Balances, Years Ended June 30, 2005, 2004, and 2003 .....	13
B	Comparative Statement of Appropriations and Expenditures, Years Ended June 30, 2005, 2004, and 2003 .....	14
C	Comparative Statement of Expenditures (from Appropriations) and Transfers, Three Years Ended June 30, 2005 .....	15

## STATE AUDITOR'S REPORT



**CLAIRE C. McCASKILL**  
**Missouri State Auditor**

Honorable Matt Blunt, Governor  
and  
Greg Steinhoff, Director  
Department of Economic Development  
and  
Alison Craighead, Director  
Division of Professional Registration  
and  
Members of the State Board of Cosmetology  
Jefferson City, MO 65102

We have audited the Department of Economic Development, Division of Professional Registration, State Board of Cosmetology. The scope of this audit included, but was not necessarily limited to, the years ended June 30, 2005, 2004, and 2003. The objectives of this audit were to:

1. Review internal controls over significant management and financial functions.
2. Review compliance with certain legal provisions.
3. Evaluate the efficiency and effectiveness of certain management practices, policies, and operations.

Our methodology to accomplish these objectives included reviewing minutes of meetings, written policies, financial records, and other pertinent documents; interviewing various personnel of the board, as well as certain external parties; and testing selected transactions.

In addition, we obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. We also performed tests of certain controls to obtain evidence regarding the effectiveness of their design and operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We also obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed

and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the board's management and was not subjected to the procedures applied in the audit of the board.

The accompanying Management Advisory Report presents our finding arising from our audit of the Department of Economic Development, Division of Professional Registration, State Board of Barber Examiners.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" written in a larger, more prominent script than the last name "McCaskill".

Claire McCaskill  
State Auditor

September 30, 2005 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Kenneth W. Kuster, CPA
Audit Manager:	John Blattel, CPA, CFE
In-Charge Auditor:	Dennis Lockwood, CPA

MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS

DEPARTMENT OF ECONOMIC DEVELOPMENT  
DIVISION OF PROFESSIONAL REGISTRATION  
STATE BOARD OF COSMETOLOGY  
MANAGEMENT ADVISORY REPORT –  
STATE AUDITOR'S FINDINGS

<b>1.</b>	<b>Inspections</b>
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The State Board of Cosmetology did not ensure cosmetology salons were inspected annually as required by board policy. The Central Investigative Unit (CIU) of the Division of Professional Registration (DPR) performs inspections and investigations of cosmetology salons and schools and also performs services for other boards and commissions within the DPR. The DPR and the board use a licensure and inspection tracking management system (PROMO) to record and monitor license and inspection activity. The board estimates 12,455, 14,196, and 13,594 inspections of cosmetology salons were performed and/or attempted for the years ended June 30, 2005, 2004, and 2003, respectively. The board should consider changes in their inspection policy.

- A. Inspections of licensed salons are not performed in accordance with board policy. The policy requires salons to be inspected once a year. CIU inspectors examine salons for compliance with licensing and sanitary regulations. Inspectors also ensure the salons are licensed for the correct number of employees or independent contractors, and that these individuals have a current license. Each salon cited for unlicensed activity or serious or repeat sanitation violations during an inspection is to be subjected to a follow-up inspection to determine if corrective action has been taken. Serious or continuing violations can lead to revocation, suspension, or probation of the salon's or cosmetologist's license.

Annually the board attempts to identify salons that did not have the required inspection within the last year. The board refers to those as overdue inspections. The board notifies the CIU inspectors to prioritize inspections of those salons. The board originally indicated 1,520 salons that were active as of June 30, 2005, but had not received an inspection in fiscal year 2005.

After we questioned the number of overdue inspections, DPR personnel analyzed the cosmetology inspection information on the PROMO system. Based on this analysis, the DPR reported there were 2,896 salons with active licenses that had overdue inspections at June 30, 2005. The DPR determined that of the 2,896 overdue inspections at least 214 salons also had not received an inspection in 2004. Furthermore, the last inspection date for the overdue inspections in the PROMO system was missing or incorrect for at least 98 salons.

Board personnel indicated that effective immediately additional tracking procedures and reconciliations for annual inspections would be developed and used to identify overdue inspections and to allow these inspections to be



prioritized. The board indicated that inspections have not been completed on a timely basis because employee turnover created vacancies in inspector positions.

To preserve public safety and to comply with licensure and sanitation requirements, the board should ensure salons are inspected annually as required by board policy. The State Board of Cosmetology is empowered by law to ensure that only licensed operators, salons, and instructors are engaged in the occupations of cosmetologist, hairdresser, or manicurist, and to require the inspection of salons to ensure sanitary conditions.

A similar condition was also noted in our prior report. In that report we noted that about 3 percent of salons did not receive at least one of the two inspections required annually at that time. In response to our recommendation to ensure inspections were performed as required, the board changed their policy to require one inspection per year for each salon.

- B. The board reported 1,611 of the 12,455 (12.9 percent) inspections performed in fiscal year 2005 resulted in a violation. They also indicated that 194 of the violations were issued for unlicensed activity or serious or repeat sanitation violations that required a follow-up inspection to ensure corrective action was taken. Based upon that information, only 1.6 percent of the inspections identified a serious violation. Furthermore, the board reported 4 licenses were revoked and 23 licenses were suspended and or placed on probation in 2005 for violations noted during inspections or investigations of consumer complaints. Only 27 of the 12,455 (0.2 percent) inspections resulted in revocation or suspension.

The board indicated that the total direct cost of the inspection program including personnel service, benefits and travel costs for inspectors paid by the board in 2005 was \$394,545. That cost does not include recording the inspection and violation data, monitoring the inspection activity, or the cost of resolving violations by board staff.

The board should consider alternative approaches to enforcement of licensure and sanitation requirements and policies on the frequency of inspections. For instance, the board might consider requiring inspections of salons with recent violations at least annually while requiring one inspection during the two year licensure period for salons that do not have a history of violations.

**WE RECOMMEND** the board and the division:

- A. Ensure salon inspections are performed as required by board policy and reconcile licensure, inspection, and overdue inspection information to ensure all overdue inspections are given priority.

- B. Consider alternative approaches to enforcement of licensure and sanitation requirements such as basing the frequency of salon inspections upon violation history.

### **AUDITEE'S RESPONSE**

- A. *The board and division concur. Prior to the conclusion of the audit, the board, as well as the Division of Professional Registration, recognized that administrative oversight of the inspectors should be under the direct supervision of the board. The board has developed additional tracking procedures and reconciliations for annual inspections which will be used to identify overdue inspections in the future.*
- B. *With the implementation of the new tracking procedure and reconciliations, the board believes that inspections of all cosmetology salons will be completed annually and cosmetology schools will be inspected at least twice a year. In the event the board finds that the inspectors are unable to meet these goals, the board will consider alternative approaches to conducting inspections based on the establishment's violation history.*

<b>2. Expenditures</b>
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The board purchased unnecessary promotional items. The board did not consider the costs for lodging, meeting rooms, and meals when selecting board meetings locations.

- A. The board purchased 2,000 Missouri shaped lapel pins at a cost of \$3,000 as promotional items in fiscal year 2003. The lapel pins were purchased to be given away at out-of-state conferences to enhance networking activities of board attendees. The attendees distributed the pins to other states' board administrators and members attending conferences. The purchase and distribution of the lapel pins to conference attendees from other states does not appear to be necessary for the board to carry out its regulatory duties.
- B. Prior to 2004, the board used the DPR travel office when requesting arrangements for lodging, meeting facilities, and meals for board meeting locations. In December 2004, the DPR established procedures to obtain three bids from hotels with meeting space in the local area designated by the board for future meetings of all boards within the division. Each board has the option to recommend the three hotels from which bids will be solicited. The winning bid is based upon the lowest total cost for lodging, meeting rooms, and meals for board members and employees.

Prior to the establishment of the new DPR bid procedures, we noted single room lodging rates of \$125 per night at a resort hotel in Lake Ozark and \$99 per night at a resort hotel in Branson for board meeting lodging. After the new procedures were established, the highest room rate noted for board meetings through June

2005 was \$61. The failure to consider the costs for lodging, meeting rooms, and meals when selecting board meeting sites resulted in excessive meeting costs.

**WE RECOMMEND** the division and board:

- A. Limit purchases to those items that are necessary to carry out the regulatory duties of the board.
- B. Continue to minimize board meeting costs by following the newly established meeting location procedures.

**AUDITEE'S RESPONSE**

- A. *The quantity of lapel pins purchased by the board enabled the board to receive a larger discount on the total purchase. The pins are used only for out-of-state conferences and serve as a networking tool as traditionally the states will exchange their respective state pins during the conferences. These conferences are attended by state administrators and board members in order to share information relevant to national sanitation and safety issues affecting this profession. The quantity purchased in 2003 is still being utilized to date and there are no plans to purchase any lapel pins in the future.*
- B. *The board and the division maintain the guidelines set forth by the Department of Economic Development and Office of Administration were followed during the timeframe examined in the audit and that referenced single room rates were within existing guidelines. The board and division plans to continue to ensure that meeting costs are minimized by following the newly established meeting location procedures.*

<b>3. Licensing Procedures</b>
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The board does not perform follow-up action regarding individuals who have not renewed their licenses in the biennial renewal period. Therefore, some individuals may be practicing without a license. The board indicated they do place some priority on the inspections of salons that did not renew their licenses; however, it may take several months for those salons to be inspected.

All licenses issued by the State Board of Cosmetology must be renewed biennially by September 30 of every odd numbered year. Renewal notices are sent to the licensees in the month of July. As of September 30, 2003, 10,130 of 55,418 (18.3 percent) individuals failed to renew their licenses. The board reported 2,576 of those individuals did renew their license during fiscal years 2004 and 2005. The board does not perform any follow-up action to determine if the individuals who did not renew, are practicing without a license except during salon and school inspections. The board relies on salon inspections and complaint investigations to ensure that all individuals are licensed; however, as noted earlier in this report, inspections are not always performed as required.

Chapter 329, RSMo, requires that every individual, shop, school, and instructor engaged in the occupation as a cosmetologist, hairdresser, esthetician or manicurist in the state shall be licensed with the State Board of Cosmetology. Without follow-up actions regarding non-renewed individual licenses, the board cannot ensure all individuals are practicing with a license as required by law. The board indicated that sending inspectors to check if individuals who failed to renew are continuing to provide service would be less effective than the current methodology of emphasizing salon inspections as a means to enforce individual licensure and could increase the number of salons not subjected to annual inspections.

At a minimum, the board could send a notice to individuals who have not renewed their license within a reasonable time following the end of the renewal period advising them they did not renew and the consequences of continuing to perform cosmetology or other services without a current license. Such a notice could also be prepared for salons that have not renewed.

A similar condition was also noted in our prior report.

**WE AGAIN RECOMMEND** the board develop and implement procedures to send follow-up notices to individuals and salons that do not renew their licenses during the renewal period.

#### **AUDITEE'S RESPONSE**

*The board concurs. The renewal cycle for all cosmetology classifications and establishments is July 1<sup>st</sup> through September 30<sup>th</sup> of each odd-numbered year. In the future, the Board will send a second reminder after the September 30<sup>th</sup> expiration date to all licensees that did not renew.*

HISTORY, ORGANIZATION, AND  
STATISTICAL INFORMATION

DEPARTMENT OF ECONOMIC DEVELOPMENT  
DIVISION OF PROFESSIONAL REGISTRATION  
STATE BOARD OF COSMETOLOGY  
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

The State Board of Cosmetology was created by the Sixty-Third General Assembly in 1945. The Omnibus State Reorganization Act of 1974 transferred the board to the Division of Professional Registration which was also established by this same reorganization act.

The board licenses persons engaged in the practice of hairdressing, cosmetology, esthetics, and manicuring within the state of Missouri, and registers and inspects beauty shops and schools operating within the state. The board issued approximately 9,767, 66,221 and 8,263 licenses in fiscal years 2005, 2004, and 2003, respectively. Licenses are renewed biennially and expire on September 30 of each odd-numbered year. During fiscal year 2005, the board reported 12,455 inspections of cosmetology salons were made, of which 1,611 resulted in a reported violation. In fiscal year 2005, the board reported 122 licenses were suspended or revoked under Section 324.010, RSMo, for failure to file or pay state income taxes. The board also revoked 4 licenses and suspended or placed on probation the licenses of 23 salons and operators for other violations.

The board consists of seven members who are nominated by the director of the Department of Economic Development and appointed by the governor with the advice and consent of the Senate. Five members are required to be licensed cosmetologists and manicurists with at least five years of active practice, one member must be a licensed school owner, and one public member who is not associated with any of the professions licensed by the board. All members serve four-year terms. The board members at June 30, 2005, were:

<u>Member</u>	<u>Term Expires</u>
John Tirre, President	October 2007
Cynthia Bald, Vice-President	July 2008
Donna Cowdrey, Secretary	October 2005*
Flora Henderson	July 2002*
Deborah Waller	August 2008
Ruth Ann Condry	July 2005*
Nancy Samp, Public Member	August 2008 **

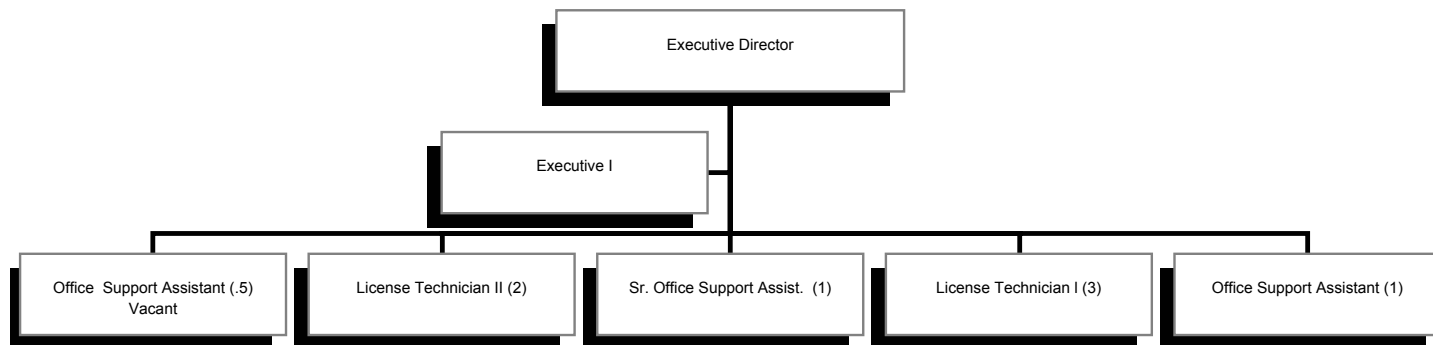
\* Continues to serve until a replacement is appointed.

\*\* Replaced Dr. John Teale in August 2003.

Board members receive a \$70 per diem compensation and expenses while performing their duties. The board appoints an executive director to perform the executive and administrative duties of the board. The Executive Director at June 30, 2005, was Darla Fox. At June 30, 2005, the State Board of Cosmetology had nine employees.

An organization chart follows:

DEPARTMENT OF ECONOMIC DEVELOPMENT  
DIVISION OF PROFESSIONAL REGISTRATION  
STATE BOARD OF COSMETOLOGY  
ORGANIZATION CHART  
JUNE 30, 2005



## Appendix A

DEPARTMENT OF ECONOMIC DEVELOPMENT  
DIVISION OF PROFESSIONAL REGISTRATION  
BOARD OF COSMETOLOGY FUND  
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES

	Year Ended June 30,		
	2005	2004	2003
Revenues			
Licenses	\$ 427,683	3,761,609	264,758
Fees	70,275	90,006	32,571
Penalties	8,046	62,820	6,326
Other	0	0	89
Total Revenues	<u>506,004</u>	<u>3,914,435</u>	<u>303,744</u>
Expenditures			
Travel	27,136	25,510	31,613
Supplies, Postage and Other	139,554	107,418	74,657
Professional Development	4,129	3,260	2,555
Services	47,194	77,975	38,389
Equipment	40,640	20,869	87,940
Rentals and Leases	718	927	9,006
Transfers (1)	<u>1,272,719</u>	<u>1,346,930</u>	<u>1,236,479</u>
Total Expenditures	<u>1,532,090</u>	<u>1,582,889</u>	<u>1,480,639</u>
Revenues Over (Under) Expenditures	(1,026,086)	2,331,546	(1,176,895)
Fund Balance - Beginning	3,297,246	965,700	2,142,595
Fund Balance - Ending	<u>\$ 2,271,160</u>	<u>3,297,246</u>	<u>965,700</u>

- (1) Reimbursement for personnel services, employee benefits and allocated share of DPR operational costs that are paid from other funds.



Appendix B

DEPARTMENT OF ECONOMIC DEVELOPMENT  
DIVISION OF PROFESSIONAL REGISTRATION  
BOARD OF COSMETOLOGY FUND  
COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURES

		Year Ended June 30,								
		2005			2004			2003		
		Appropriation	Expenditures	Lapsed	Appropriation	Expenditures	Lapsed	Appropriation	Expenditures	Lapsed
		Authority		Balances	Authority		Balances	Authority		Balances
Board of Cosmetology Fund										
Board of Cosmetology	\$	259,418	259,371	47	259,418	235,959	23,459	259,418	244,160	15,258
Total Board of Cosmetology Fund	\$	259,418	259,371	47	259,418	235,959	23,459	259,418	244,160	15,258

## Appendix C

DEPARTMENT OF ECONOMIC DEVELOPMENT  
DIVISION OF PROFESSIONAL REGISTRATION  
BOARD OF COSMETOLOGY FUND  
COMPARATIVE STATEMENT OF EXPENDITURES  
(FROM APPROPRIATIONS) AND TRANSFERS

	Year Ended June 30,		
	2005	2004	2003
Travel:			
In-State	\$ 21,879	18,078	26,553
Out-of-State	5,257	7,432	5,060
Supplies, including Postage	130,906	100,015	66,387
Professional development	4,129	3,260	2,555
Communication services and supplies	16,250	16,233	16,521
Services:			
Professional	21,602	53,787	15,522
Maintenance and repair	9,342	7,955	6,346
Equipment:			
Computer	4,066	200	20,640
Motorized	28,780	20,669	58,168
Office	7,794	0	9,132
Property and improvements	0	0	3,101
Rentals and leases	718	927	5,905
Miscellaneous expenses	8,648	7,403	8,270
Transfers (1)	1,272,719	1,346,930	1,236,479
Total Expenditures	\$ <u>1,532,090</u>	<u>1,582,889</u>	<u>1,480,639</u>

- (1) Reimbursement for personnel services, employee benefits and allocated share of DPR operational costs that are paid from other funds.